

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Mackinaw City	County Emmet
Fiscal Year End 02/28/2006	Opinion Date 06/30/2006	Date Audit Report Submitted to State 09/07/2006	

We affirm that:

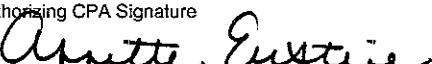
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. ☒ ☐ The local unit has adopted a budget for all required funds.
 5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. ☒ ☐ The local unit is free of repeated comments from previous years.
 12. ☒ ☐ The audit opinion is UNQUALIFIED.
 13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 231-627-3143		
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI	Zip 49721
Authorizing CPA Signature 		Printed Name Annette Eustice		License Number 1101019667

VILLAGE OF MACKINAW CITY
MACKINAW CITY, MICHIGAN



FINANCIAL STATEMENTS

FEBRUARY 28, 2006

VILLAGE OF MACKINAW CITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-11
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements	
Balance Sheet – Governmental Funds	15-16
Statement of Revenues, Expenditures and Changes in Fund	
Balances – Governmental Funds	17-18
Statement of Revenues, Expenditures and Changes in Fund Balance –	
Budget and Actual	
General Fund	19
Major Street Fund	20
Municipal Street Fund	21
Ambulance Fund	22
Statement of Net Assets – Proprietary Funds	23
Statement of Revenues, Expenses and	
Changes in Fund Net Assets – Proprietary Funds	24
Statement of Cash Flows – Proprietary Funds	25-26
Statement of Fiduciary Net Assets – Fiduciary Funds	27
Statement of Changes in Fiduciary Net Assets –	
Pension Trust Fund	28
Notes to Financial Statements	29-49

VILLAGE OF MACKINAW CITY

TABLE OF CONTENTS

	<u>PAGE</u>
Supplementary Information	
Detail Schedule of Revenues and Other Financing Sources – Budget and Actual – General Fund	50
Detail Schedule of Expenditures and Other Financing Uses – Budget and Actual – General Fund	51
Combining Balance Sheet – Nonmajor Governmental Funds	52
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	53
Combining Balance Sheet – Nonmajor Special Revenue Funds	54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds	55
Combining Balance Sheet – Nonmajor Debt Service Funds	56
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds	57
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	58
 Internal Control and Compliance	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance of Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59-60



INDEPENDENT AUDITORS' REPORT

June 30, 2006

Village Council
Village of Mackinaw City
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Mackinaw City***, (the "Village"), as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis

As management of the **Village of Mackinaw City**, (the "Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006.

Financial Highlights

- The total assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$14,444,625 (*net assets*). Of this amount, \$2,533,697 (*unrestricted net assets*) may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's total net assets increased by \$431,861.
- The Village repaid \$372,069 of long-term debt during the current fiscal year. The Village issued the 2005 Act 99 Installment loan for \$135,000 to purchase a fire truck during fiscal 2006.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$426,990, or 33% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., compensated absences).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, highways and streets, health and welfare, and recreation and culture. The business-type activities of the Village include water and sewer and marina.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the Downtown Development Authority component unit, which is a legally separate entity for which the Village is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains 25 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Municipal Street Fund, Ambulance Fund, 1997 Special Assessment Bonds Fund, 2000 Special Assessment Bonds Fund, and Restroom Construction Fund which are considered to be major funds. Data from the other 18 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 52-58 in this report.

The Village adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund and all major special revenue funds budgets.

The basic governmental funds financial statements can be found on pages 15-22 of this report.

Proprietary funds. The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water and sewer and marina operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Marina Fund, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 23-26 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-49 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 50-58 of this report.

Government-wide Financial Analysis - Primary Government

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$14,444,625 at the close of fiscal 2006.

A large portion of the Village's net assets (81%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, marina and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (13%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Village of Mackinaw City - Primary Government
Condensed Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Cash and other assets	\$ 1,742,830	\$ 1,837,377	\$ 1,441,297	\$ 1,615,807	\$ 3,184,127	\$ 3,453,184
Capital assets, net of accumulated depreciation	<u>6,332,755</u>	<u>6,074,911</u>	<u>7,033,514</u>	<u>6,966,936</u>	<u>13,366,269</u>	<u>13,041,847</u>
Total assets	<u>8,075,585</u>	<u>7,912,288</u>	<u>8,474,811</u>	<u>8,582,743</u>	<u>16,550,396</u>	<u>16,495,031</u>
Liabilities						
Current and other liabilities	383,648	432,183	143,395	208,987	527,043	641,170
Long-term debt, net of current portion	<u>1,253,728</u>	<u>1,451,097</u>	<u>325,000</u>	<u>390,000</u>	<u>1,578,728</u>	<u>1,841,097</u>
Total liabilities	<u>1,637,376</u>	<u>1,883,280</u>	<u>468,395</u>	<u>598,987</u>	<u>2,105,771</u>	<u>2,482,267</u>
Net assets						
Invested in capital assets, net of related debt	5,001,320	4,591,149	6,643,514	6,521,936	11,644,834	11,113,085
Restricted	142,951	131,866	123,143	120,000	266,094	251,866
Unrestricted	<u>1,293,938</u>	<u>1,305,993</u>	<u>1,239,759</u>	<u>1,341,820</u>	<u>2,533,697</u>	<u>2,647,813</u>
Total net assets	<u>\$ 6,438,209</u>	<u>\$ 6,029,008</u>	<u>\$ 8,006,416</u>	<u>\$ 7,983,756</u>	<u>\$14,444,625</u>	<u>\$14,012,764</u>

At the end of fiscal 2006, the Village is able to report positive balances in all three categories of net assets, both for the primary government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

The Village's net assets increased by \$431,861 during fiscal 2006. This increase is mainly attributable to an increase in property tax values and the Village's goal of retaining net assets for future infrastructure projects.

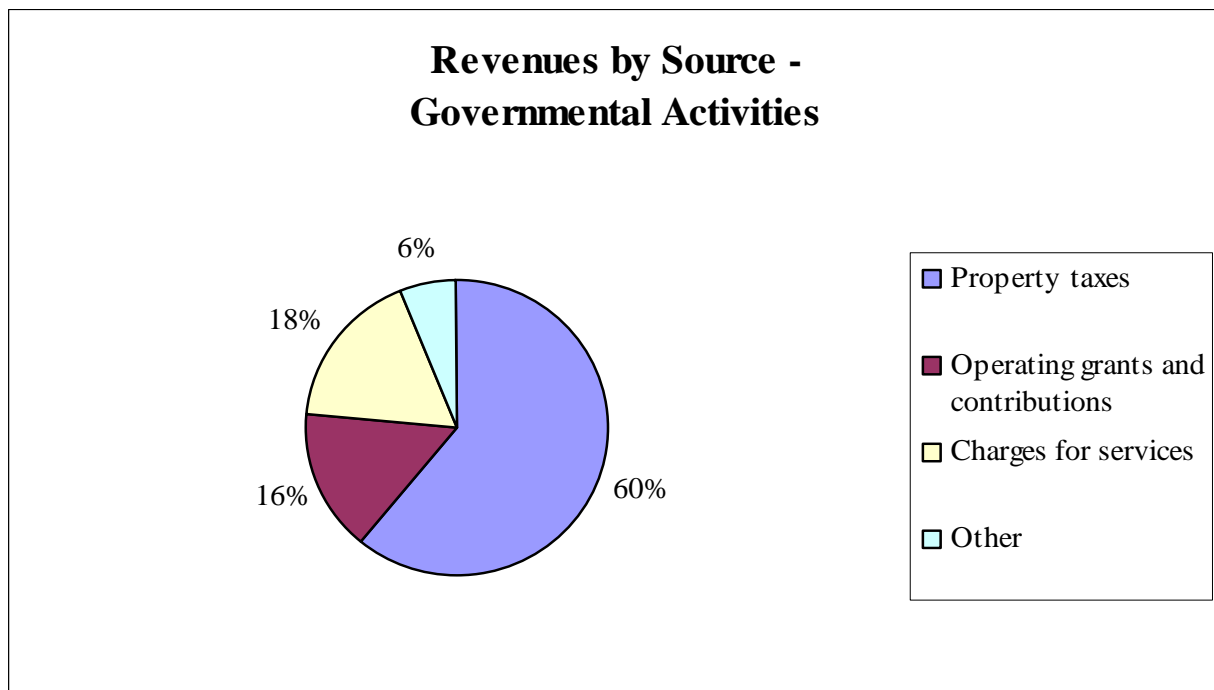
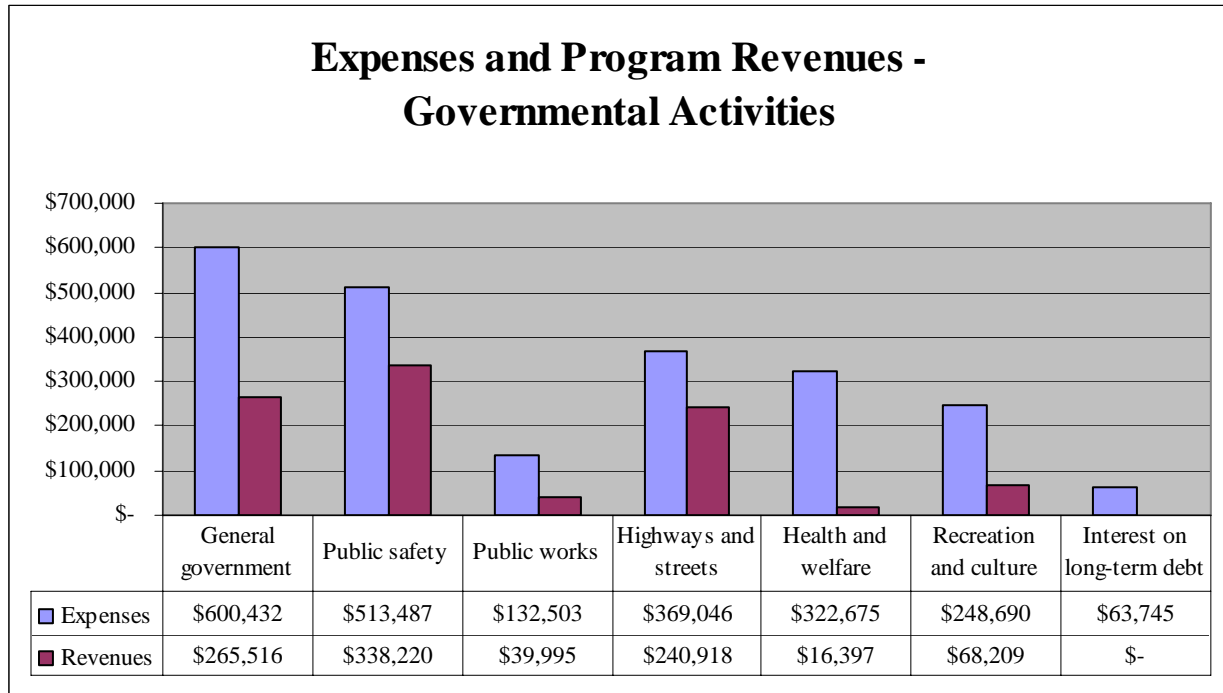
Village of Mackinaw City - Primary Government
Condensed Statement of Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues						
Charges for services	\$ 467,073	\$ 468,791	\$ 1,207,377	\$ 1,198,540	\$ 1,674,450	\$ 1,667,331
Operating grants and contributions	413,977	517,918	18,241	33,713	432,218	551,631
Capital grants and contributions	88,205	203,220	-	-	88,205	203,220
General revenues						
Property taxes	1,619,416	1,484,914	-	-	1,619,416	1,484,914
Grants and contributions not restricted to specific programs	43,970	35,699	-	-	43,970	35,699
Unrestricted interest income	10,743	6,324	-	-	10,743	6,324
Total revenues	<u>2,653,384</u>	<u>2,716,866</u>	<u>1,225,618</u>	<u>1,232,253</u>	<u>3,869,002</u>	<u>3,949,119</u>
Expenses						
General government	600,432	721,222	-	-	600,432	721,222
Public safety	513,487	607,546	-	-	513,487	607,546
Public works	132,503	158,598	-	-	132,503	158,598
Highways and streets	369,046	304,392	-	-	369,046	304,392
Health and welfare	322,675	300,022	-	-	322,675	300,022
Recreation and culture	248,690	262,491	-	-	248,690	262,491
Interest on long-term debt	63,745	68,392	-	-	63,745	68,392
Water and sewer	-	-	708,488	725,835	708,488	725,835
Marina	-	-	478,075	496,039	478,075	496,039
Total expenses	<u>2,250,578</u>	<u>2,422,663</u>	<u>1,186,563</u>	<u>1,221,874</u>	<u>3,437,141</u>	<u>3,644,537</u>
Increase in net assets before transfers	392,806	294,203	39,055	10,379	431,861	304,582
Transfers	16,395	16,395	(16,395)	(16,395)	-	-
Change in net assets	409,201	310,598	22,660	(6,016)	431,861	304,582
Net assets – beginning of year	<u>6,029,008</u>	<u>5,718,410</u>	<u>7,983,756</u>	<u>7,989,772</u>	<u>14,012,764</u>	<u>13,708,182</u>
Net assets – end of year	<u>\$ 6,438,209</u>	<u>\$ 6,029,008</u>	<u>\$ 8,006,416</u>	<u>\$ 7,983,756</u>	<u>\$14,444,625</u>	<u>\$14,012,764</u>

Governmental activities. Governmental activities increased the Village's net assets by \$409,201.

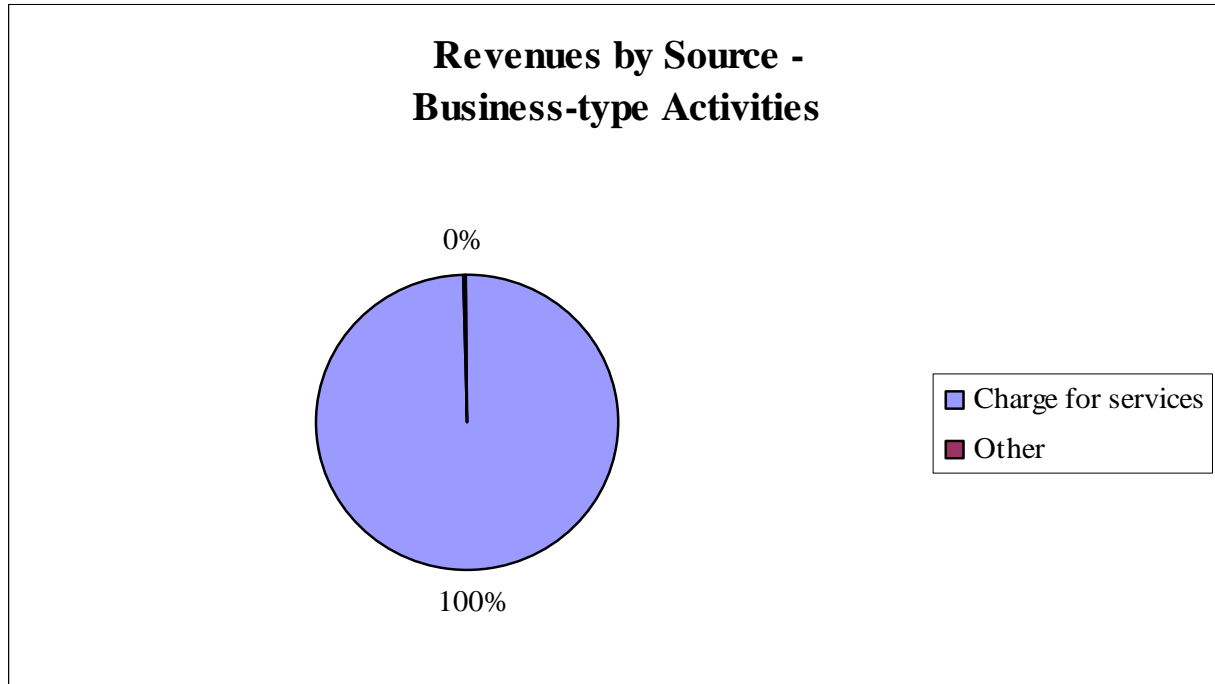
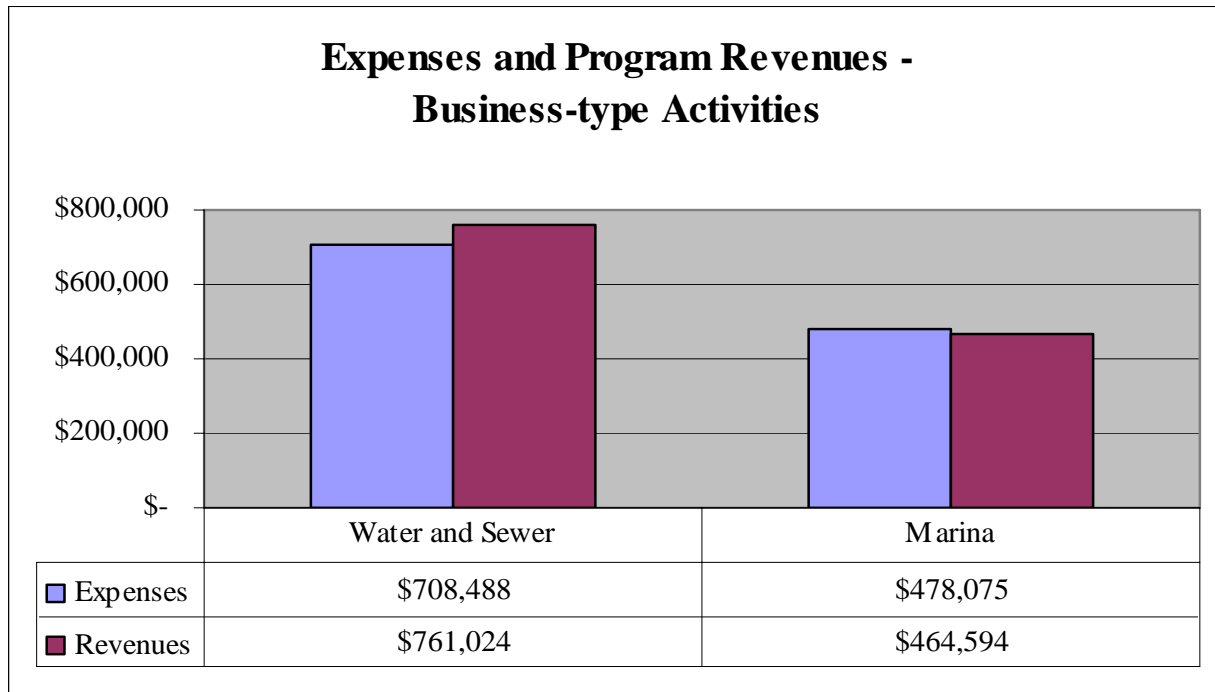
Key elements of this increase are as follows:

- Increase in property tax.
- Retention of net assets for future infrastructure projects.



Business-type activities. Business-type activities increased the Village's net assets by \$22,660.

Key elements of the current year increase include an increase in user rates and a decrease in operating costs.



Substantially all revenues for the business-type activities resulted from charges for services.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year 2006, the Village's governmental funds reported combined ending fund balances of \$1,175,406, an increase of \$173,941. *Unreserved fund balance* of \$1,024,483 is available for spending at the Village's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The fund balance of the Village's General Fund increased by approximately \$129,350 during the current fiscal year, which was mainly attributable to the increase in property tax revenues.

There were no other significant changes to the fund balance of the other major governmental funds.

Proprietary funds. The Village's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,091,658. The Water and Sewer Fund had an increase in net assets for the year of \$36,141. Factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

Unrestricted net assets of the Marina Fund at the end of the year amounted to \$148,101. The Marina Fund had a decrease in net assets for the year of \$13,481. Revenues increased from fiscal 2005 by approximately \$50,000 and expenses in fiscal 2006 were approximately \$18,000 less than in fiscal 2005. The fiscal 2005 decrease in net assets of the Marina Fund was approximately \$77,000.

Budgetary Highlights

General Fund Revenues and Expenditures. Overall there are no significant differences between the original and final amended budget or the final amended budget and actual financial statement results.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2006, amounted to \$11,644,834 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, marina, vehicles and equipment.

Additional information on the Village's capital assets can be found in note 3C on pages 39-41 of this report.

Major capital asset events during the current fiscal year included the following:

- Purchase of a fire truck
- M-108 street reconstruction
- Village Hall and public restroom improvements

Long-term debt. At February 28, 2006, the Village had total debt outstanding of approximately \$1,941,000. Of this amount, approximately \$1,551,000 is comprised of debt backed by the full faith and credit of the Village. The remainder of the Village's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the Village's long-term debt can be found in Note 3F on pages 43-47 of this report.

Economic Factors and Fiscal 2006-2007 Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2006-07 fiscal year:

- Economic factors.
- Estimated revenues.
- Planned capital improvements.
- Operating expenses.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, PO Box 580, Mackinaw City, Michigan 49701.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS

FEBRUARY 28, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 722,390	\$ 584,106	\$ 1,306,496	\$ 12,399
Investments	452,447	446,736	899,183	9,488
Receivables, net	628,405	184,878	813,283	2,731
Internal balances	(83,412)	83,412	-	-
Inventories	-	19,022	19,022	-
Restricted investments	23,000	123,143	146,143	-
Capital assets not being depreciated	856,079	74,087	930,166	-
Capital assets being depreciated, net	5,476,676	6,959,427	12,436,103	-
Total assets	8,075,585	8,474,811	16,550,396	24,618
Liabilities				
Accounts payable and accrued expenses	75,598	14,589	90,187	-
Unearned revenue	10,855	63,806	74,661	-
Long-term liabilities				
Due within one year	297,195	65,000	362,195	-
Due in more than one year	1,253,728	325,000	1,578,728	-
Total liabilities	1,637,376	468,395	2,105,771	-
Net assets				
Invested in capital assets, net of related debt	5,001,320	6,643,514	11,644,834	-
Restricted for debt service	142,951	123,143	266,094	-
Unrestricted	1,293,938	1,239,759	2,533,697	24,618
Total net assets	\$ 6,438,209	\$ 8,006,416	\$ 14,444,625	\$ 24,618

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 600,432	\$ 158,422	\$ 107,094	\$ -	\$ (334,916)
Public safety	513,488	229,782	107,314	1,124	(175,268)
Public works	132,502	22,152	17,843	-	(92,507)
Highways and streets	369,046	1,823	152,014	87,081	(128,128)
Health and welfare	322,675	13,570	2,827	-	(306,278)
Recreation and culture	248,690	41,324	26,885	-	(180,481)
Interest on long-term debt	63,745	-	-	-	(63,745)
Total governmental activities	<u>2,250,578</u>	<u>467,073</u>	<u>413,977</u>	<u>88,205</u>	<u>(1,281,323)</u>
Business-type activities					
Water and sewer	708,488	745,474	15,550	-	52,536
Marina	478,075	461,903	2,691	-	(13,481)
Total business-type activities	<u>1,186,563</u>	<u>1,207,377</u>	<u>18,241</u>	<u>-</u>	<u>39,055</u>
Total primary government	<u>\$ 3,437,141</u>	<u>\$ 1,674,450</u>	<u>\$ 432,218</u>	<u>\$ 88,205</u>	<u>\$ (1,242,268)</u>
Discretely presented component unit					
Downtown development	<u>\$ 27,339</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (27,339)</u>

Continued...

VILLAGE OF MACKINAW CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2006

Functions/Programs	Primary Government			Discretely Presented Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (1,281,323)	\$ 39,055	\$ (1,242,268)	\$ (27,339)
General revenues				
Property taxes	1,619,416	-	1,619,416	40,391
Grants and contributions not restricted to specific programs	43,970	-	43,970	-
Unrestricted interest income	10,743	-	10,743	230
Transfers - internal activities	16,395	(16,395)	-	-
Total general revenues and transfers	1,690,524	(16,395)	1,674,129	40,621
Change in net assets	409,201	22,660	431,861	13,282
Net assets, beginning of year	6,029,008	7,983,756	14,012,764	11,336
Net assets, end of year	\$ 6,438,209	\$ 8,006,416	\$ 14,444,625	\$ 24,618

Concluded

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

VILLAGE OF MACKINAW CITY

BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 28, 2006

	General	Major Street	Municipal Street	Ambulance	1997 Special Assessment Bonds
ASSETS					
Cash and cash equivalents	\$ 240,927	\$ 25,057	\$ 121,889	\$ 36,326	\$ 49,608
Investments	174,700	19,174	93,270	27,758	-
Accounts receivable	36,732	-	-	31,909	-
Taxes receivable	107,128	-	35,094	-	-
Special assessment receivable	-	-	227,428	-	36,308
Due from other governmental units	-	7,670	-	-	-
Restricted investments	-	-	-	-	-
Total assets	\$ 559,487	\$ 51,901	\$ 477,681	\$ 95,993	\$ 85,916
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	13,300	-	-	-	-
Accrued expenses	24,930	3,402	-	12,589	-
Unearned revenue	10,855	-	227,428	-	34,798
Advance from other fund	83,412	-	-	-	-
Total liabilities	132,497	3,402	227,428	12,589	34,798
Fund balances					
Reserved for					
Recreation facilities	-	-	-	-	-
Debt service	-	-	-	-	51,118
Unreserved					
Designated - Special Revenue Funds					
Accrued sick and vacation	-	-	-	-	-
Undesignated	426,990	48,499	250,253	83,404	-
Undesignated, reported in nonmajor					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Total fund balances	426,990	48,499	250,253	83,404	51,118
Total liabilities and fund balances	\$ 559,487	\$ 51,901	\$ 477,681	\$ 95,993	\$ 85,916

2000 Special Assessment Bonds	Restroom Construction	Nonmajor Governmental Funds	Total Governmental Funds
\$ 28,029	\$ 18,538	\$ 149,487	\$ 669,861
-	14,185	83,165	412,252
-	-	-	68,641
-	-	1,497	143,719
92,895	-	47,864	404,495
-	-	3,880	11,550
-	-	23,000	23,000
\$ 120,924	\$ 32,723	\$ 308,893	\$ 1,733,518

-	-	\$ 1,995	\$ 15,295
-	-	4,644	45,565
92,895	-	47,864	413,840
-	-	-	83,412
92,895	-	54,503	558,112

-	-	7,972	7,972
28,029	-	63,804	142,951
-	-	94,568	94,568
-	32,723	-	841,869
-	-	87,134	87,134
-	-	912	912
28,029	32,723	254,390	1,175,406
\$ 120,924	\$ 32,723	\$ 308,893	\$ 1,733,518

Continued...

VILLAGE OF MACKINAW CITY

BALANCE SHEET GOVERNMENTAL FUNDS

FEBRUARY 28, 2006

Reconciliation of fund balances on the balance sheet for governmental activities to the statement of net assets

Fund balances - total governmental funds \$ 1,175,406

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add: capital assets	7,970,927
Subtract: accumulated depreciation	(2,023,936)

The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessment revenues and other deferred revenues	402,985
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Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in an internal service fund	475,776
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Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and notes payable	(1,331,435)
Subtract: compensated absences	(219,488)
Subtract: accrued interest on long-term liabilities	(12,026)

Net assets of governmental activities	<u>\$ 6,438,209</u>
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Concluded

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

	General	Major Street	Municipal Street	Ambulance	1997 Special Assessment Bonds
Revenues					
Property taxes	\$ 1,191,987	\$ -	\$ 409,894	\$ -	\$ -
Federal revenue	23,898	-	-	-	-
State revenue	82,076	184,568	-	-	-
Special assessments	-	-	27,770	-	47,512
Licenses and permits	10,572	-	-	-	-
Contributions	21,585	-	-	100,671	-
Charges for services	9,890	-	-	191,146	-
Fines and forfeits	1,636	-	-	-	-
Interest	7,432	661	1,418	1,085	4,393
Rents and royalties	121,899	-	-	-	-
Local contribution	-	-	-	-	-
Miscellaneous	66,021	-	-	58	-
Total revenues	1,536,996	185,229	439,082	292,960	51,905
Expenditures					
Current					
Legislative	34,172	-	-	-	-
General government	535,111	-	-	-	-
Public safety	663,874	-	-	-	-
Highways and streets	-	337,566	36,767	-	-
Health and welfare	-	-	-	275,784	-
Recreation and culture	52,983	-	-	-	-
Other functions	8,205	-	-	-	-
Capital outlay	-	-	-	257	-
Debt service					
Principal	-	-	-	-	45,000
Interest and paying agent fees	-	-	-	-	4,228
Total expenditures	1,294,345	337,566	36,767	276,041	49,228
Revenues over (under) expenditures	242,651	(152,337)	402,315	16,919	2,677
Other financial sources (uses)					
Bond proceeds	135,000	-	-	-	-
Transfers in	-	95,000	-	-	-
Transfers out	(248,301)	-	(213,836)	-	-
Total other financing sources (uses)	(113,301)	95,000	(213,836)	-	-
Net change in fund balances	129,350	(57,337)	188,479	16,919	2,677
Fund balances, beginning of year	297,640	105,836	61,774	66,485	48,441
Fund balances, end of year	\$ 426,990	\$ 48,499	\$ 250,253	\$ 83,404	\$ 51,118

2000 Special Assessment Bonds	Restroom Construction	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 17,535	\$ 1,619,416
-	-	-	23,898
-	-	54,250	320,894
33,401	-	22,551	131,234
-	-	-	10,572
-	-	1,000	123,256
-	-	40,883	241,919
-	-	-	1,636
7,301	1,237	8,100	31,627
-	-	-	121,899
-	-	23,958	23,958
-	-	32,241	98,320
40,702	1,237	200,518	2,748,629
-	-	-	34,172
-	-	38,943	574,054
-	-	-	663,874
-	-	161,093	535,426
-	-	-	275,784
-	-	96,216	149,199
-	-	39,903	48,108
-	92,258	13,597	106,112
30,000	-	212,328	287,328
6,943	-	49,518	60,689
36,943	92,258	611,598	2,734,746
3,759	(91,021)	(411,080)	13,883
-	-	-	135,000
-	-	400,881	495,881
-	-	(8,686)	(470,823)
-	-	392,195	160,058
3,759	(91,021)	(18,885)	173,941
24,270	123,744	273,275	1,001,465
\$ 28,029	\$ 32,723	\$ 254,390	\$ 1,175,406

Continued...

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

**Reconciliation of statement of revenues, expenditures and changes in fund balances
of governmental funds to statement of activities**

Net change in fund balances - total governmental funds \$ 173,941

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay capitalized during current year	485,771
Subtract: book value of capital asset disposals	(6,091)
Subtract: depreciation expense	(315,234)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: current year special assessments and other	402,985
Subtract: prior year special assessments and other	(512,067)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Subtract: bond proceeds	(135,000)
Add: principal payments on long-term liabilities	287,325

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	8,970
Subtract: current year accrued interest on bonds	(12,025)
Add: decrease in the accrual of compensated absences	29,740

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: change in net assets from governmental activities accounted for in internal service fund	<u>886</u>
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Change in net assets of governmental activities	<u>\$ 409,201</u>
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Concluded

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ 1,123,900	\$ 1,123,900	\$ 1,191,987	\$ 68,087
Federal revenue	37,125	37,125	23,898	(13,227)
State revenue	89,500	89,500	82,076	(7,424)
Licenses and permits	14,000	14,000	10,572	(3,428)
Contributions	12,400	12,400	21,585	9,185
Charges for services	9,840	9,840	9,890	50
Fines and forfeits	2,500	2,500	1,636	(864)
Interest	15,000	15,000	7,432	(7,568)
Rentals	119,000	119,000	121,899	2,899
Miscellaneous	2,000	2,000	66,021	64,021
Total revenues	1,425,265	1,425,265	1,536,996	111,731
Expenditures				
Legislative	31,350	31,350	34,172	(2,822)
General government	653,025	653,025	535,111	117,914
Public safety	472,576	472,576	663,874	(191,298)
Recreation and culture	110,273	110,273	52,983	57,290
Other functions	9,600	9,600	8,205	1,395
Total expenditures	1,276,824	1,276,824	1,294,345	(17,521)
Revenues over (under) expenditures	148,441	148,441	242,651	94,210
Other financing sources (uses)				
Bond proceeds	123,000	123,000	135,000	12,000
Transfers out	(300,718)	(300,718)	(248,301)	52,417
Total other financing sources (uses)	(177,718)	(177,718)	(113,301)	64,417
Net change in fund balance	(29,277)	(29,277)	129,350	158,627
Fund balance, beginning of year	297,640	297,640	297,640	-
Fund balance, end of year	\$ 268,363	\$ 268,363	\$ 426,990	\$ 158,627

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
State revenue				
State trunkline maintenance	\$ -	\$ -	\$ 17,098	\$ 17,098
Gas and weight tax distribution	68,000	68,000	78,566	10,566
Other	250,000	250,000	88,904	(161,096)
Interest	-	-	661	661
Total revenues	318,000	318,000	185,229	(132,771)
Expenditures				
Highways and streets				
Administration	26,550	26,550	21,594	4,956
Routine maintenance	57,320	57,320	73,472	(16,152)
Winter maintenance	41,200	41,200	64,023	(22,823)
Traffic services	11,000	11,000	12,097	(1,097)
Construction	411,000	411,000	166,380	244,620
Total expenditures	547,070	547,070	337,566	209,504
Revenues under expenditures	(229,070)	(229,070)	(152,337)	76,733
Other financing sources				
Transfers in	234,850	234,570	95,000	(139,570)
Net change in fund balance	5,780	5,500	(57,337)	(62,837)
Fund balance, beginning of year	105,836	105,836	105,836	-
Fund balance, end of year	\$ 111,616	\$ 111,336	\$ 48,499	\$ (62,837)

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MUNICIPAL STREET
FOR THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 398,611	\$ 398,611	\$ 409,894	\$ 11,283
State revenue	5,000	5,000	-	(5,000)
Special assessments	-	-	27,770	27,770
Interest	25	25	1,418	1,393
Total revenues	403,636	403,636	439,082	35,446
Expenditures				
Highways and streets				
Routine maintenance	42,000	42,000	36,767	5,233
Revenues over expenditures	361,636	361,636	402,315	40,679
Other financing sources (uses)				
Transfers out	(361,636)	(361,636)	(213,836)	147,800
Net change in fund balance	-	-	188,479	188,479
Fund balance, beginning of year	61,774	61,774	61,774	-
Fund balance, end of year	\$ 61,774	\$ 61,774	\$ 250,253	\$ 188,479

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
AMBULANCE**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Contributions from other governmental units	\$ 94,100	\$ 94,100	\$ 100,671	\$ 6,571
Charges for services	145,620	145,620	191,146	45,526
Interest	50	50	1,085	1,035
Miscellaneous	200	200	58	(142)
Total revenues	239,970	239,970	292,960	52,990
Expenditures				
Health and welfare	238,970	238,970	275,784	(36,814)
Capital outlay	1,000	1,000	257	743
Total expenditures	239,970	239,970	276,041	(36,071)
Net change in fund balance	-	-	16,919	16,919
Fund balance, beginning of year	66,485	66,485	66,485	-
Fund balance, end of year	\$ 66,485	\$ 66,485	\$ 83,404	\$ -

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

FEBRUARY 28, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer Fund	Marina Fund	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 488,016	\$ 96,090	\$ 584,106	\$ 52,529
Investments	373,433	73,303	446,736	40,195
Due from other funds				
Accounts receivable	159,800	25,078	184,878	-
Inventory	-	19,022	19,022	-
Total current assets	1,021,249	213,493	1,234,742	92,724
Property and equipment				
Land	52,587	21,500	74,087	-
Land improvements	-	87,964	87,964	-
Buildings	71,791	-	71,791	-
Water and sewer system	7,988,770	-	7,988,770	-
Machinery and equipment	328,136	83,917	412,053	882,761
Marina	-	1,641,949	1,641,949	-
Less accumulated depreciation	(2,281,951)	(961,149)	(3,243,100)	(496,997)
Net property and equipment	6,159,333	874,181	7,033,514	385,764
Other assets				
Restricted investments	123,143	-	123,143	-
Advance to other fund	83,412	-	83,412	-
Total other assets	206,555	-	206,555	-
Total assets	7,387,137	1,087,674	8,474,811	478,488
Liabilities				
Current liabilities				
Accounts payable	6,076	-	6,076	-
Accrued expenses	6,927	1,586	8,513	2,712
Unearned revenue	-	63,806	63,806	-
Bonds payable	65,000	-	65,000	-
Total current liabilities	78,003	65,392	143,395	2,712
Long-term debt				
Bonds payable (net of current portion)	325,000	-	325,000	-
Total liabilities	403,003	65,392	468,395	2,712
Net assets				
Invested in capital assets, net of related debt	5,769,333	874,181	6,643,514	385,764
Restricted	123,143	-	123,143	-
Unrestricted	1,091,658	148,101	1,239,759	90,012
Total net assets	\$ 6,984,134	\$ 1,022,282	\$ 8,006,416	\$ 475,776

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Operating revenues				
Sales and charges for services	\$ -	\$ 461,903	\$ 461,903	\$ 230,437
Sales and charges for services pledged as security for revenue bonds	745,474	-	745,474	-
Total operating revenues	745,474	461,903	1,207,377	230,437
Operating expenses				
Salaries and wages	185,077	120,150	305,227	43,149
Fringe benefits	99,207	43,658	142,865	19,869
Supplies	9,267	13,359	22,626	4,395
Gasoline and oil	7,262	156,704	163,966	29,064
Repairs and maintenance	35,283	4,403	39,686	37,616
Contracted services	76,805	19,375	96,180	10,825
Communications	3,595	3,346	6,941	1,552
Conferences and workshops	805	-	805	160
Travel	1,448	-	1,448	62
Insurance	12,313	10,761	23,074	10,472
Utilities	80,403	27,919	108,322	5,945
Equipment rental	4,759	329	5,088	-
Depreciation	162,859	56,699	219,558	61,500
Miscellaneous	3,578	21,372	24,950	116
Total operating expenses	682,661	478,075	1,160,736	224,725
Operating income (loss)	62,813	(16,172)	46,641	5,712
Non-operating revenues (expenses)				
Interest earnings	15,550	2,691	18,241	3,837
Interest and fiscal charges	(25,827)	-	(25,827)	-
Total non-operating revenues (expenses)	(10,277)	2,691	(7,586)	3,837
Income (loss) before transfers	52,536	(13,481)	39,055	9,549
Transfers in	-	-	-	8,686
Transfers out	(16,395)	-	(16,395)	(17,349)
Change in net assets	36,141	(13,481)	22,660	886
Net assets, beginning of year	6,947,993	1,035,763	7,983,756	474,890
Net assets, end of year	\$ 6,984,134	\$ 1,022,282	\$ 8,006,416	\$ 475,776

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Cash flows from operating activities				
Cash collected from customers	\$ 729,902	\$ 467,180	\$ 1,197,082	\$ -
Cash collected from other funds	-	-	-	230,437
Cash paid for employee wages and benefits	(284,284)	(163,808)	(448,092)	63,018
Cash paid for interfund services	(527)	(329)	(856)	-
Cash paid for other operating and administrative expenses	(297,688)	(282,878)	(580,566)	(230,585)
Net cash provided by used in operating activities	147,403	20,165	167,568	62,870
Cash flows from capital and related financing activities				
Interest payments	(25,827)	-	(25,827)	-
Principal payments	(55,000)	-	(55,000)	-
Purchase of property and equipment	(271,016)	(15,120)	(286,136)	(154,899)
Transfer in	-	-	-	8,686
Transfer out	(16,395)	-	(16,395)	(17,349)
Net cash used in capital and related financing activities	(368,238)	(15,120)	(383,358)	(163,562)
Cash flows from investing activities				
Repayment of advance to other funds	34,079	-	34,079	-
Interest earnings	15,550	2,691	18,241	3,837
Sale (purchase) of investments	44,607	(7,800)	36,807	36,762
Net cash provided by (used in) investing activities	94,236	(5,109)	89,127	40,599
Net decrease in cash and cash equivalents	(126,599)	(64)	(126,663)	(60,093)
Cash and cash equivalents, beginning of year	614,615	96,154	710,769	112,622
Cash and cash equivalents, end of year	\$ 488,016	\$ 96,090	\$ 584,106	\$ 52,529

Continued...

VILLAGE OF MACKINAW CITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Marina	Total	
Reconciliation of operating income (loss) to net cash provided by operating activities				
Cash flows from operating activities				
Operating income (loss)	\$ 62,813	\$ (16,172)	\$ 46,641	\$ 5,712
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	162,859	56,699	219,558	61,500
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(15,572)	5,277	(10,295)	-
Inventory	-	(12,744)	(12,744)	-
Accounts payable	(65,129)	(1,816)	(66,945)	(6,200)
Accrued expenses	2,432	360	2,792	1,858
Deferred revenue	-	(11,439)	(11,439)	-
Net cash provided by operating activities	\$ 147,403	\$ 20,165	\$ 167,568	\$ 62,870
				Concluded

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

FEBRUARY 28, 2006

	<u>Pension Trust Fund Employees' Retirement System</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 4,377
Investments	<u>913,980</u>	<u>-</u>
Total assets	913,980	<u><u>4,377</u></u>
Liabilities		
Accounts payable	<u>-</u>	<u><u>4,377</u></u>
Net assets		
Reserved for employees' retirement system	<u><u>\$ 913,980</u></u>	

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND

FOR THE YEAR ENDED FEBRUARY 28, 2006

Additions	
Contributions	\$ 85,957
Investment income	<u>55,961</u>
Toal additions	141,918
Deductions	
Benefits	<u>237,802</u>
Change in net assets	(95,884)
Net assets, beginning of year	<u>1,009,864</u>
Net assets, end of year	<u>\$ 913,980</u>

The accompanying notes are an integral part of these basic financial statements.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the ***Village of Mackinaw City***, (the “Village”) and its component unit. The component unit discussed below is included in the Village’s reporting entity because of the significance of its operational or financial relationship with the Village.

Discretely presented component unit. The amounts reported as the “discretely presented component unit” in the basic financial statements include the financial data of the Village’s Downtown Development Authority (“DDA”) to emphasize that it is legally separate from the Village. The members of the governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Separate financial statements of the DDA have not been prepared.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements. The fund financial statements provide information about the Village's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by state statute for major street and highway purposes.

The *Municipal Street Fund* accounts for the use of a tax levy which is used to supplement the Major and Local Street Funds.

The *Ambulance Fund* accounts for the operations of the Village-operated ambulance service.

The *1997 Special Assessment Bonds Fund* accounts for the 1997 special assessment revenues and the payments on the bonds issued for street improvements.

The *2000 Special Assessment Bonds Fund* accounts for the 2000 special assessment revenues and the payments on the bonds issued for street improvements.

The *Restroom Construction Fund* accounts for the proceeds of the 2004 Capital Improvement Bonds and the construction of public restrooms and the remodeling of Village Hall.

The Village reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the activities of the Village's water distribution, water treatment, sewage disposal and sewage treatment systems.

The *Marina Fund* accounts for the operations of the Village-owned marina.

Additionally, the Village reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Internal Service Funds* accounts for operations that provide machinery and equipment to other departments of the Village on a cost-reimbursement basis.

The *Pension Trust Fund* accounts for the activities of the Village's employee retirement system, which accumulates resources for retirement benefit payments to qualified employees.

The *Agency Funds* account for assets held for other governments and employees in an agency capacity.

C. Measurement focus, basis of accounting, and financial statement presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The Village considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the Village follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's enterprise funds, are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The Village maintains an investment pool for all Village funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents" and "Investments." The debt service and trust and agency funds cash resources are invested separately as required by law.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The Village's investments during the year consisted of certificate of deposits with original maturities of more than three months and pension trust investments held with a life insurance company.

2. Receivables and payables

All receivables are reported at their gross value, except the Ambulance Fund accounts receivable which is shown net of an estimated allowance for uncollectible accounts of \$20,000.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

3. *Property taxes*

The Village's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Cheboygan and Emmet Counties. Assessed values, as established annually by the government and subject to acceptance by the counties, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the Village for the 2005 levy was approximately \$102,000,000. The Village's general operating tax rate for fiscal 2005-06 was 10.6589 mills with an additional 3.9125 mills for streets and .1669 mills for the cemetery.

Property taxes for the DDA are derived from a 1.812 mill tax levied on the properties located within the DDA district under the authority of Public Act 197 of 1975.

Property taxes are recognized in the fiscal year in which they are levied.

4. *Inventories*

All inventories are valued at cost using the first-in/first-out (FIFO) method of accounting.

5. *Restricted assets*

Certain resources are set aside for repayment of the Village's Water and Sewer and Recreation revenue bonds and are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants.

6. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, water and wastewater system and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Village defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-15
Buildings and building improvements	15-40
Water and wastewater system infrastructure	20-75
Machinery and equipment	5-25
Marina	7-40
Infrastructure	20

7. *Compensated absences*

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

8. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

9. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end.

On or before the third Thursday in February of each year, the Village Manager must present the proposed budget to the Village Council for review. The Council holds public hearings and a final budget must be prepared and adopted by resolution no later than the first day in March.

The budget document presents information by fund, function, department and line item. The legal level of budgetary control adopted by the Village Council is the function level which is the level at which expenditures may not exceed appropriations. The Village Manager may make transfers of appropriations within a function. Transfers of appropriations between functions require the approval of the Village Council.

B. Excess of expenditures over appropriations in budgetary funds

P.A. 621 of 1978 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the functional basis. The approved budgets of the Village for the budgetary funds were adopted at the function level for the General Fund and each special revenue fund.

Amounts in excess of budget at the function level are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Legislative	\$ 31,350	\$ 34,172	\$ 2,822
Public Safety	472,576	663,874	191,298
Ambulance Fund			
Health and welfare	238,970	275,784	36,814

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Summary of deposit and investment balances. Following is a reconciliation of deposit and investment balances as of February 28, 2006:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 1,306,496	\$ 12,399	\$ 1,318,895
Investments	899,183	9,488	908,671
Restricted assets	<u>146,143</u>	<u>-</u>	<u>146,143</u>
Total Statement of Net Assets	<u>\$ 2,351,822</u>	<u>\$ 21,887</u>	2,373,709
Statement of Fiduciary Net Assets			
Cash and cash equivalents			4,377
Investments			<u>913,980</u>
Total			<u>\$ 3,292,066</u>

The composition of deposits and investments for footnote disclosure is as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 2,378,086
Investments in securities, mutual funds and similar vehicles	<u>913,980</u>
Total	<u>\$ 3,292,066</u>

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investments included in the Statement of Fiduciary Net Assets do not have specific maturity dates.

Credit Risk. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The Village has no investments for which ratings are required.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$1,942,110 of the Village's bank balance of \$2,442,110 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Village Council is authorized to designate depositories for Village funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority. The Village's deposits are in accordance with statutory authority.

Custodial Credit Risk Investments. The Village's Pension Trust Fund holds securities of \$913,980 in a trust fund of a life insurance company, which are not in the Village's name. The carrying amount of the Pension Trust Fund investment is stated at fair value.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of February 28, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Accounts receivable	\$ 63,711	\$ 184,878	\$ -
Taxes receivable	143,719	-	2,731
Special assessment receivable, due in one year	88,000	-	-
Special assessment receivable, due in more than one year	316,495	-	-
Due from other governmental units	<u>11,550</u>	<u>-</u>	<u>-</u>
Total receivables	623,475	184,878	2,731
Less: allowance for doubtful accounts	<u>(20,000)</u>	<u>-</u>	<u>-</u>
Total receivables, net	<u>\$ 603,475</u>	<u>\$ 184,878</u>	<u>\$ 2,731</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, *deferred revenue* reported in the governmental funds was \$413,840.

C. Capital assets

Capital assets activity was as follows for the year ended February 28, 2006:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 856,079	\$ -	\$ -	\$ 856,079
Capital assets being depreciated				
Buildings	1,909,049	112,275	(6,091)	2,015,233
Land improvements	795,529	-	-	795,529
Equipment	2,045,069	365,801	(109,951)	2,300,919
Infrastructure	<u>2,723,334</u>	<u>162,594</u>	<u>-</u>	<u>2,885,928</u>
Total capital assets being depreciated	<u>7,472,981</u>	<u>640,670</u>	<u>(116,042)</u>	<u>7,997,609</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation on				
Buildings	\$ (330,310)	\$ (53,392)	\$ -	\$ (383,702)
Land improvements	(417,971)	(42,725)	-	(460,696)
Equipment	(1,030,195)	(149,115)	109,951	(1,069,359)
Infrastructure	<u>(475,674)</u>	<u>(131,502)</u>	<u>-</u>	<u>(607,176)</u>
Total accumulated depreciation	<u>(2,254,150)</u>	<u>(376,734)</u>	<u>109,951</u>	<u>(2,520,933)</u>
Total capital assets being depreciated, net	<u>5,218,831</u>	<u>263,936</u>	<u>(6,091)</u>	<u>5,476,676</u>
Governmental activities capital assets, net	<u>\$6,074,910</u>	<u>\$ 263,936</u>	<u>\$ (6,091)</u>	<u>\$6,332,755</u>
Business-type activities				
Capital assets not being depreciated – land	<u>\$ 74,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,087</u>
Capital assets being depreciated				
Buildings	71,791	-	-	71,791
Improvements other than buildings	7,814,597	262,137	-	8,076,734
Machinery and equipment	403,174	8,879	-	412,053
Marina	<u>1,626,829</u>	<u>15,120</u>	<u>-</u>	<u>1,641,949</u>
Total capital assets being depreciated	<u>9,916,391</u>	<u>286,136</u>	<u>-</u>	<u>10,202,527</u>
Less accumulated depreciation for				
Buildings	(20,526)	(2,604)	-	(23,130)
Improvements other than buildings	(2,048,541)	(128,036)	43	(2,176,534)
Machinery and equipment	(212,047)	(42,833)	35,300	(219,580)
Marina	<u>(742,428)</u>	<u>(46,085)</u>	<u>(35,343)</u>	<u>(823,856)</u>
Total accumulated depreciation	<u>(3,023,542)</u>	<u>(219,558)</u>	<u>-</u>	<u>(3,243,100)</u>
Total capital assets being depreciated, net	<u>6,892,849</u>	<u>66,578</u>	<u>-</u>	<u>6,959,427</u>
Business-type activities capital assets, net	<u>\$6,966,936</u>	<u>\$ 66,578</u>	<u>\$ -</u>	<u>\$7,033,514</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities

General government	\$ 21,626
Public safety	51,028
Public works	2,782
Highways and streets	133,480
Health and welfare	7,948
Recreation and culture	98,370
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>61,500</u>

Total depreciation expense – governmental activities **\$ 376,734**

Business-type activities

Water and Sewer	\$ 162,859
Marina	<u>56,699</u>

Total depreciation expense – business-type activities **\$ 219,558**

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows at February 28, 2006:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 18,007	\$ 6,076
Accrued expenses	<u>32,661</u>	<u>8,513</u>
Total accounts payables and accrued expenses	<u>\$ 50,668</u>	<u>\$ 14,589</u>

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

E. Interfund receivables, payables and transfers

The Water and Sewer Enterprise Fund advanced \$258,355 to the General Fund during the year ended February 28, 2003 for the purpose of assisting the Recreation Center Fund in construction of the ice rink facility. The advance is to be repaid over five years with interest charged at 4.28%. At February 28, 2006, the outstanding balance of this advance was \$83,412.

Interfund transfers consisted of the following for the year ended February 28, 2006:

<u>Transfers Out</u>	<u>Transfers In</u>			<u>Total Transfers</u>
	<u>Major Street Fund</u>	<u>Internal Service Funds</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ -	\$ 248,301	\$ 248,301
Municipal Street Fund	95,000	-	118,836	213,836
Water and Sewer Fund	-	-	16,395	16,395
Nonmajor governmental funds	-	8,686	-	8,686
Internal Service Fund	-	-	17,349	17,349
Total Transfers	<u>\$ 95,000</u>	<u>\$ 8,686</u>	<u>\$ 400,881</u>	<u>\$ 504,567</u>

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

F. Long-term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended February 28, 2006:

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2006</u>	<u>Due Within 1 Year</u>
Governmental activities					
2005 Act 99 installment contract maturing in fiscal 2016 in semi-annual payments of \$8,382 including interest at 4.25%.	\$ -	\$ 135,000	\$ (5,434)	\$ 129,566	\$ 11,304
2004 Capital Improvement Bonds maturing serially through fiscal 2015 in annual payments ranging from \$30,000 to \$40,000 and bearing interest at 3.375%.	350,000	-	(30,000)	320,000	30,000
2002 Capital Improvement Bonds maturing serially through fiscal 2013 in annual payments ranging from \$25,000 to \$35,000 and bearing interest from 2.2% to 4.1%.	250,000	-	(25,000)	225,000	30,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2006</u>	<u>Due Within 1 Year</u>
2000 Special Assessment Limited Tax Bonds maturing serially through fiscal 2010 in annual payments ranging from \$20,000 to \$30,000 and bearing interest from 5.4% to 5.65%.	\$ 140,000	\$ -	\$ (30,000)	\$ 110,000	\$ 30,000
1997 Act 99 installment contract maturing in fiscal 2008 in semi-annual payments of \$22,260 including interest at 2.89%.	101,780	-	(41,879)	59,501	43,097
1998 Act 99 installment contract maturing in fiscal 2009 in semi-annual payments of \$16,798 including interest at 2.89%.	121,467	-	(30,305)	91,164	31,186
1997 Special Assessment Limited Tax Bonds maturing serially through fiscal 2007 in annual payments ranging from \$40,000 to \$45,000 and bearing interest from 4.9% to 5.0%.	85,000	-	(45,000)	40,000	40,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2006</u>	<u>Due Within 1 Year</u>
2000 Revenue Bonds maturing serially through fiscal 2011 in annual payments ranging from \$20,000 to \$25,000 and bearing interest from 5.4% to 5.75%.	\$ 135,000	\$ -	\$ (20,000)	\$ 115,000	\$ 20,000
2000 General Obligation Limited Tax Bonds maturing serially through fiscal 2010 in annual payments ranging from \$20,000 to \$25,000 and bearing interest from 5.4% to 5.65%.	115,000	-	(20,000)	95,000	20,000
1999 Act 99 installment contract maturing in fiscal 2010 in semi-annual payments of \$12,397 including interest at 4.28%.	100,515	-	(20,712)	79,802	21,608
1999 Special Assessment Limited Tax Bonds maturing serially through fiscal 2009 in annual payments ranging from \$18,000 to \$25,000 and bearing interest ranging from 4.1% to 4.4%.	85,000	-	(19,000)	66,000	20,000

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

	<u>Balance March 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance February 28, 2006</u>	<u>Due Within 1 Year</u>
Liability for accrued compensated absences	\$ 249,229	\$ -	\$ (29,741)	\$ 219,488	\$ -
Total governmental activities long-term debt	<u>1,732,991</u>	<u>135,000</u>	<u>(317,069)</u>	<u>1,550,922</u>	<u>297,195</u>
Business-type activities					
Enterprise Funds					
Water Revenue Bonds maturing serially through fiscal 2020 in annual payments ranging from \$15,000 to \$30,000 and bearing interest at 5%.	305,000	-	(15,000)	290,000	15,000
1997 Sewer Revenue Refunding Bonds maturing serially through fiscal 2008 in annual payments ranging from \$35,000 to \$50,000 and bearing interest from 4.65% to 4.9%.	<u>140,000</u>	<u>-</u>	<u>(40,000)</u>	<u>100,000</u>	<u>50,000</u>
Total business-type activities long-term debt	<u>445,000</u>	<u>-</u>	<u>(55,000)</u>	<u>390,000</u>	<u>65,000</u>
Total long-term debt	<u>\$2,177,991</u>	<u>\$ 135,000</u>	<u>\$ (372,069)</u>	<u>\$1,940,922</u>	<u>\$ 362,195</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 297,195	\$ 51,079	\$ 65,000	\$ 19,225
2008	239,236	38,867	65,000	16,125
2009	233,698	28,909	15,000	13,000
2010	159,982	19,842	15,000	12,250
2011	108,405	14,066	20,000	11,500
2012-2016	292,918	22,510	105,000	42,500
2017-2021	<u>-</u>	<u>-</u>	<u>105,000</u>	<u>13,500</u>
	<u>\$1,331,434</u>	<u>\$ 175,273</u>	<u>\$ 390,000</u>	<u>\$ 128,100</u>

Total interest expense for the Village for the year was \$81,847.

4. OTHER INFORMATION

A. Retirement plans

Defined benefit pension plan

Plan description

During the year ended February 28, 2005, the Village established a defined benefit pension plan which provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The police officers at the Village are the only employees eligible to participate in this plan. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan, 48917 or by calling (800) 767-6377.

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Village is required to contribute at an actuarially determined rate; the current rate is 9.26% of annual covered payroll. Employees are currently required to contribute 1.6%. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Cost

For the year ended December 31, 2005, the Village's annual pension cost of \$20,621 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases on 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

Trend Information

Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/05	\$ 20,423	100%	\$ -
2/28/06	20,621	100%	-

VILLAGE OF MACKINAW CITY

NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Accrued AAL (UAAL) (b-a)</u>	<u>Over- funded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/04	\$ 256,902	\$ 226,007	\$ (30,895)		113.67%	\$ 175,857	(17.57)%
12/31/05	316,221	274,310	(41,911)		115.30%	238,190	(17.59)%

Defined contribution pension plan

Plan description

The Village provides pension benefits for all of its full-time employees through a defined contribution plan, the Village of Mackinaw City Pension Plan and Trust, which is administered and maintained through a life insurance company. Benefits depend solely on amounts contributed to the Plan, plus investment earnings. Each individual employee has a flexible retirement annuity. Employees are eligible to participate after one year of continuous employment and having attained the age of 19. The contribution to the Plan is made by the Village based upon 10% of employee's base pay, excluding overtime.

Plan provisions and contribution requirements are established and may be amended by the Village Council. Normal retirement age is the employee's 55th birthday or the 10th anniversary of the participation commencement date. Participants are 100% vested upon entry date into the Plan. The Village made the required 10% contribution in the amount of \$63,560 for the plan year ended February 28, 2006.

B. Risk management and litigation

The Village is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

C. Other Matters

A deficit fund balance in the Performance Shell Special Revenue Fund of \$1,995 exists at February 28, 2006. The Village is in the process of submitting a deficit elimination plan to the Department of Treasury, in accordance with Public Act 275 of 1980.

SUPPLEMENTARY INFORMATION

VILLAGE OF MACKINAW CITY

DETAIL SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Taxes				
Current property tax	\$ 1,103,900	\$ 1,103,900	\$ 1,155,793	\$ 51,893
Property tax administration fees	20,000	20,000	36,194	16,194
Total taxes	1,123,900	1,123,900	1,191,987	68,087
Federal revenues				
DEQ grant	37,125	37,125	23,898	(13,227)
Total federal revenues	37,125	37,125	23,898	(13,227)
State revenues				
Liquor licenses	9,500	9,500	9,928	428
Other state revenue	80,000	80,000	72,148	(7,852)
Total state revenues	89,500	89,500	82,076	(7,424)
Licenses and permits				
Business licenses and permits	6,000	6,000	3,590	(2,410)
Non-business licenses and permits	8,000	8,000	6,982	(1,018)
Total licenses and permits	14,000	14,000	10,572	(3,428)
Contributions				
Other governmental units	12,400	12,400	19,010	6,610
Other	-	-	2,575	2,575
Total contributions	12,400	12,400	21,585	9,185
Charges for services	9,840	9,840	9,890	50
Fines and forfeits	2,500	2,500	1,636	(864)
Interest earnings	15,000	15,000	7,432	(7,568)
Rents and royalties	119,000	119,000	121,899	2,899
Miscellaneous	2,000	2,000	66,021	64,021
Total revenues	1,425,265	1,425,265	1,536,996	111,731
Other financing sources				
Bond proceeds	123,000	123,000	135,000	12,000
Total revenues and other financing sources	\$ 1,548,265	\$ 1,548,265	\$ 1,671,996	\$ 123,731

VILLAGE OF MACKINAW CITY

DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Legislative				
Village council	<u>\$ 31,350</u>	<u>\$ 31,350</u>	<u>\$ 34,172</u>	<u>\$ (2,822)</u>
General government				
Village manager	88,000	88,000	91,755	(3,755)
Clerk - elections	2,300	2,300	1,537	763
Professional services	29,200	29,200	47,333	(18,133)
Clerk	34,150	34,150	35,118	(968)
Treasurer	35,300	35,300	33,522	1,778
Community development director	69,700	69,700	68,104	1,596
Village hall and grounds	236,250	236,250	87,803	148,447
Village property - other	108,125	108,125	114,243	(6,118)
Promotional	50,000	50,000	55,696	(5,696)
Total general government	<u>653,025</u>	<u>653,025</u>	<u>535,111</u>	<u>117,914</u>
Public safety				
Police department	398,506	398,506	435,142	(36,636)
Fire department	74,070	74,070	228,732	(154,662)
Total public safety	<u>472,576</u>	<u>472,576</u>	<u>663,874</u>	<u>(191,298)</u>
Recreation and culture	<u>110,273</u>	<u>110,273</u>	<u>52,983</u>	<u>57,290</u>
Other functions	<u>9,600</u>	<u>9,600</u>	<u>8,205</u>	<u>1,395</u>
Total expenditures	<u>1,276,824</u>	<u>1,276,824</u>	<u>1,294,345</u>	<u>(17,521)</u>
Other financing uses				
Transfers out	<u>300,718</u>	<u>300,718</u>	<u>248,301</u>	<u>52,417</u>
Total expenditures and other financing uses	<u>\$ 1,577,542</u>	<u>\$ 1,577,542</u>	<u>\$ 1,542,646</u>	<u>\$ 34,896</u>

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

FEBRUARY 28, 2006

	Special Revenue Funds	Debt Service Funds	Waterfront Development Capital Project Fund	Total
ASSETS				
Cash and cash equivalents	\$ 108,166	\$ 40,804	\$ 517	\$ 149,487
Investments	82,770	-	395	83,165
Taxes receivable	1,497	-	-	1,497
Due from other governmental units	3,880	-	-	3,880
Special assessment receivable	-	47,864	-	47,864
Restricted assets	-	23,000	-	23,000
Total assets	\$ 196,313	\$ 111,668	\$ 912	\$ 308,893
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,995	\$ -	\$ -	\$ 1,995
Accrued expenses	4,644	-	-	4,644
Deferred revenue	-	47,864	-	47,864
Total liabilities	6,639	47,864	-	54,503
Fund balances				
Reserved				
Recreational facilities	7,972	-	-	7,972
Debt service	-	63,804	-	63,804
Unreserved				
Designated				
Accrued sick and vacation	94,568	-	-	94,568
Undesignated	87,134	-	912	88,046
Total fund balances	189,674	63,804	912	254,390
Total liabilities and fund balances	\$ 196,313	\$ 111,668	\$ 912	\$ 308,893

VILLAGE OF MACKINAW CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Special Revenue Funds	Debt Service Funds	Waterfront Development Capital Project Fund	Total
Revenues				
Property taxes	\$ 17,535	\$ -	\$ -	\$ 17,535
State revenue	54,250	-	-	54,250
Special assessments	-	22,551	-	22,551
Contributions	1,000	-	-	1,000
Charges for services	40,883	-	-	40,883
Local contribution	-	23,958	-	23,958
Interest	3,162	4,923	15	8,100
Miscellaneous	32,241	-	-	32,241
Total revenues	149,071	51,432	15	200,518
Expenditures				
Current				
General government	38,943	-	-	38,943
Highways and streets	161,093	-	-	161,093
Recreation	96,216	-	-	96,216
Other	39,903	-	-	39,903
Capital outlay	13,597	-	-	13,597
Debt service				
Principal payments	-	212,328	-	212,328
Interest and paying agent fees	-	49,518	-	49,518
Total expenditures	349,752	261,846	-	611,598
Revenues over (under) expenditures	(200,681)	(210,414)	15	(411,080)
Other financing sources (uses)				
Transfers in	185,818	215,063	-	400,881
Transfers out	(8,686)	-	-	(8,686)
Total other financing sources (uses)	177,132	215,063	-	392,195
Net change in fund balances	(23,549)	4,649	15	(18,885)
Fund balances, beginning of year	213,223	59,155	897	273,275
Fund balances, end of year	\$ 189,674	\$ 63,804	\$ 912	\$ 254,390

VILLAGE OF MACKINAW CITY
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

FEBRUARY 28, 2006

	Local Streets	Cemetery	Recreation Complex	Recreation Center	Performance Shell
ASSETS					
Cash and cash equivalents	\$ 530	\$ 30,582	\$ 5,191	\$ 10,470	\$ -
Investments	405	23,401	3,972	8,012	-
Due from other governmental units	3,880	-	-	-	-
Taxes receivable	-	1,497	-	-	-
Total assets	\$ 4,815	\$ 55,480	\$ 9,163	\$ 18,482	\$ -
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 1,995
Accrued expenses	2,782	-	378	469	-
Total liabilities	2,782	-	378	469	1,995
Fund balances					
Reserved - recreation facilities	-	-	7,972	-	-
Unreserved					
Designated					
Accrued sick and vacation	-	-	-	-	-
Undesignated (deficit)	2,033	55,480	813	18,013	(1,995)
Total fund balances (deficit)	2,033	55,480	8,785	18,013	(1,995)
Total liabilities and fund balances	\$ 4,815	\$ 55,480	\$ 9,163	\$ 18,482	\$ -

Planning Commission	Economic Development Commission	Trail Groomer	Employee Sick and Vacation	Total
\$ 2,482	\$ 5,338	\$ -	\$ 53,573	\$ 108,166
1,900	4,085	-	40,995	82,770
-	-	-	-	3,880
-	-	-	-	1,497
\$ 4,382	\$ 9,423	\$ -	\$ 94,568	\$ 196,313
\$ -	\$ -	\$ -	\$ -	\$ 1,995
1,015	-	-	-	4,644
1,015	-	-	-	6,639
-	-	-	-	7,972
-	-	-	94,568	94,568
3,367	9,423	-	-	87,134
3,367	9,423	-	94,568	189,674
\$ 4,382	\$ 9,423	\$ -	\$ 94,568	\$ 196,313

VILLAGE OF MACKINAW CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2006

	Local Streets	Cemetery	Recreation Complex	Recreation Center	Performance Shell
Revenues					
Taxes	\$ -	\$ 17,535	\$ -	\$ -	\$ -
State revenue	54,250	-	-	-	-
Contributions from other governmental units	-	-	-	1,000	-
Charges for services	-	13,570	2,418	20,398	-
Interest	21	835	142	370	-
Miscellaneous	-	-	-	18,720	500
Total revenues	54,271	31,940	2,560	40,488	500
Expenditures					
Current					
General government	-	38,943	-	-	-
Highways and streets	161,093	-	-	-	-
Recreation	-	-	28,708	63,143	4,365
Other	-	-	-	-	-
Capital outlay	-	-	1,289	10,127	2,181
Total expenditures	161,093	38,943	29,997	73,270	6,546
Revenues over (under) expenditures	(106,822)	(7,003)	(27,437)	(32,782)	(6,046)
Other financing sources (uses)					
Transfers in	104,500	-	32,285	20,783	4,050
Transfers out	-	-	-	-	-
Total other financing sources (uses)	104,500	-	32,285	20,783	4,050
Net change in fund balances	(2,322)	(7,003)	4,848	(11,999)	(1,996)
Fund balances, beginning of year	4,355	62,483	3,937	30,012	1
Fund balances (deficit), end of year	\$ 2,033	\$ 55,480	\$ 8,785	\$ 18,013	\$ (1,995)

Planning Commission	Economic Development Commission	Trail Groomer	Employee Sick and Vacation	Total
\$ -	\$ -	\$ -	\$ -	\$ 17,535
-	-	-	-	54,250
-	-	-	-	1,000
4,497	-	-	-	40,883
63	202	63	1,466	3,162
116	12,905	-	-	32,241
4,676	13,107	63	1,466	149,071
-	-	-	-	38,943
-	-	-	-	161,093
-	-	-	-	96,216
9,011	30,892	-	-	39,903
-	-	-	-	13,597
9,011	30,892	-	-	349,752
(4,335)	(17,785)	63	1,466	(200,681)
6,200	18,000	-	-	185,818
-	-	(8,686)	-	(8,686)
6,200	18,000	(8,686)	-	177,132
1,865	215	(8,623)	1,466	(23,549)
1,502	9,208	8,623	93,102	213,223
\$ 3,367	\$ 9,423	\$ -	\$ 94,568	\$ 189,674

VILLAGE OF MACKINAW CITY

COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 28, 2006

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Act 99 Installment Contract	1998 Act 99 Installment Contract
ASSETS					
Cash and cash equivalents	\$ 2,536	\$ 1,482	\$ 80	\$ -	\$ -
Special assessments receivable	-	-	-	-	-
Restricted assets	-	-	23,000	-	-
Total assets	\$ 2,536	\$ 1,482	\$ 23,080	\$ -	\$ -
FUND BALANCES					
Liabilities					
Deferred revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Fund balances					
Reserved for debt service	2,536	1,482	23,080	-	-
Total liabilities and fund balances	\$ 2,536	\$ 1,482	\$ 23,080	\$ -	\$ -

1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	Total
\$ 36,064	\$ 642	\$ -	\$ -	\$ 40,804
40,359	7,505	-	-	47,864
-	-	-	-	23,000
\$ 76,423	\$ 8,147	\$ -	\$ -	\$ 111,668
\$ 40,359	\$ 7,505	\$ -	\$ -	\$ 47,864
36,064	642	-	-	63,804
\$ 76,423	\$ 8,147	\$ -	\$ -	\$ 111,668

VILLAGE OF MACKINAW CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2006

	1998 Act 99 Installment Contract Ice System	2000 General Obligation Bonds	2000 Revenue Bond Recreation Center	1997 Act 99 Installment Contract	1998 Act 99 Installment Contract
Revenues					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Local contributions	-	-	-	-	-
Interest	11	7	-	-	-
Total revenues	11	7	-	-	-
Expenditures					
Principal payments	30,303	20,000	20,000	41,879	20,712
Interest and paying agent fees	3,293	5,845	7,055	2,641	4,083
Total expenditures	33,596	25,845	27,055	44,520	24,795
Revenues over (under) expenditures	(33,585)	(25,838)	(27,055)	(44,520)	(24,795)
Other financing sources (uses)					
Transfers in	33,596	25,650	27,055	44,520	24,795
Net change in fund balances	11	(188)	-	-	-
Fund balances, beginning of year	2,525	1,670	23,080	-	-
Fund balances, end of year	\$ 2,536	\$ 1,482	\$ 23,080	\$ -	\$ -

1999 Special Assessment Bonds	2002 General Obligation Bonds	2004 General Obligation Bonds	2005 Act 99 Installment Contract Fire Truck	Total
\$ 22,551	\$ -	\$ -	\$ -	\$ 22,551
-	-	23,958	-	23,958
4,223	682	-	-	4,923
26,774	682	23,958	-	51,432
19,000	25,000	30,000	5,434	212,328
3,548	8,798	11,307	2,948	49,518
22,548	33,798	41,307	8,382	261,846
4,226	(33,116)	(17,349)	(8,382)	(210,414)
-	33,716	17,349	8,382	215,063
4,226	600	-	-	4,649
31,838	42	-	-	59,155
\$ 36,064	\$ 642	\$ -	\$ -	\$ 63,804

VILLAGE OF MACKINAW CITY
COMBINING STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2006

	Balance March 1, 2005	Additions	Deductions	Balance February 28, 2006
TAX COLLECTION FUND				
ASSETS				
Cash and cash equivalents	\$ 161	\$ 1,581,167	\$ 1,581,228	\$ 100
LIABILITIES				
Due to other funds	\$ 161	\$ 1,449,122	\$ 1,449,183	\$ 100
Due to component units	-	33,480	33,480	-
Due to other governmental units	-	98,565	98,565	-
Total liabilities	\$ 161	\$ 1,581,167	\$ 1,581,228	\$ 100
EMPLOYEE FLEX PLAN FUND				
ASSETS				
Cash and cash equivalents	\$ 4,640	\$ 13,561	\$ 13,924	\$ 4,277
LIABILITIES				
Due to employees	\$ 4,640	\$ 13,561	\$ 13,924	\$ 4,277
TOTAL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 4,801	\$ 1,594,728	\$ 1,595,152	\$ 4,377
LIABILITIES				
Due to other funds	161	1,449,122	1,449,183	100
Due to component units	-	33,480	33,480	-
Due to other governmental units	-	98,565	98,565	-
Due to employees	4,640	13,561	13,924	4,277
Total liabilities	\$ 4,801	\$ 1,594,728	\$ 1,595,152	\$ 4,377



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 30, 2006

Village Council
Village of Mackinaw City
Mackinaw City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Mackinaw City*** (the "Village"), as of and for the year ended February 28, 2006, and have issued our report thereon dated June 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition is described as follows:

Due to staff size, there is limited segregation of duties over cash receipts and disbursements and the recording of these transactions. The Village recognizes this risk, but no change will be implemented because the costs would exceed the benefits.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

June 30, 2006

Village Council
Village of Mackinaw City
Mackinaw City, MI

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the ***Village of Mackinaw City*** (the "Village") for the year ended February 28, 2006, we considered the Village's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the above-mentioned engagement, we became aware of opportunities for strengthening controls and improving operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated June 30, 2006 on the financial statements of Village.

We have already discussed these comments with the Village Manager, Village Clerk and Village Treasurer, and we would be pleased to discuss them in further detail at your convenience.

If we can be of assistance, we hope you will view us as an integral part of your team.

Best wishes for a successful 2006-2007.

Village of Mackinaw City
Comments and Recommendations
February 28, 2006

EXPENDITURES

If February 2006, the Michigan Department of Treasury revised its Auditing Procedures Report to include certain additional assertions to be made by your auditors each year. New additions to this report include an assertion that “no (material) illegal or unauthorized expenditures came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised. Appendix H of the Bulletin provides a list of examples of illegal or unauthorized expenditures including those listed below. We noted no such material expenditures during the year ended February 28, 2006.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the Village Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

Two additional statements must be addressed which include the following:

1. The Village Board approves all invoices prior to payment as required by charter or statute.
2. Bank reconciliations that were reviewed were prepared timely.

We have provided management with the finalized Auditing Procedures Report which is also to be submitted to the Michigan Department of Treasury together with the financial statements.

MICHIGAN FINANCE QUALIFYING STATEMENT

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The Village must submit their qualifying statement electronically using the Michigan Department of Treasurer’s website. Management must contact the Local Audit Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement.

Village of Mackinaw City
Comments and Recommendations
February 28, 2006

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires that the Village financial statements be submitted electronically to the Michigan Department of Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the Village Clerk to enable the Village to comply.

SEC RULE 15C-12 DISCLOSURE REQUIREMENTS

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The Village is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

CONCLUSION

It has been a pleasure to provide audit services to the *Village of Mackinaw City*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.